THE KROGER CO. ANNUAL REPORT

Kroger®

1968


Wish-Bone
Green Goddess
Kleenex
12 OZ. SIZE
Coke

CONTENTS

THE KROGER CO. ANNUAL REPORT 1968

The Kroger Co., 1014 Vine Street, Cincinnati, Ohio 45201

OPPOSITE PAGE: *Kroger stores provide a wide range of nationally-advertised products as well as quality products under our own labels.*

DIRECTORS

H. U. ANDREAE, *President,*
The Jeffrey Company

WILLIAM W. BOESCHENSTEIN,
Executive Vice President,
Owens-Corning Fiberglas Corporation

BEN H. CARPENTER, *Chairman of the Board,*
Southland Life Insurance Company

JACOB E. DAVIS, *President*

JOSEPH B. HALL,
Former Chairman of the Kroger Board
President, Cincinnati Redevelopment Corporation

JAMES P. HERRING, *Vice President*
President, SupeRx Drugs

JOHN M. LOCKHART, *Executive Vice President*

ROBERT MONTGOMERY, *Executive Vice President*

T. BALLARD MORTON, JR., *President,*
WAVE, Inc.

JAMES M. PHELAN, *President,*
A. T. Kearney & Company, Inc.

W. GEORGE PINNELL, *Dean,*
Graduate School of Business,
Indiana University

R. NELSON SHAW, *President,*
Mercantile Stores Company, Inc.

EDWARD D. SMITH, *President,*
The First National Bank of Atlanta

OFFICERS

JACOB E. DAVIS, *President*

JOHN M. LOCKHART, *Executive Vice President*

ROBERT MONTGOMERY, *Executive Vice President*

ROBERT O. ADERS, *Vice President and Secretary*

LYLE J. EVERINGHAM, *Vice President*

JAMES P. HERRING, *Vice President*

GENE D. HOFFMAN, *Vice President*

BENNETT A. HUDSON, *Vice President*

RICHARD E. KARKOW, *Vice President and Treasurer*

WILLIAM P. RUNYAN, *Vice President*

A. WAYNE SMITH, *Vice President*

JOHN L. STRUBBE, *Vice President*

CARL W. BRIESKE, *Controller*

ARTHUR L. FERGUSON, *Assistant Secretary*
GEORGE A. LEONARD, *Assistant Secretary*
IRLE R. HICKS, *Assistant Treasurer*
LORRENCE T. KELLAR, *Assistant Treasurer*
JOSEPH C. LAMB, *Assistant Treasurer*

DIVISION OFFICERS

CLIFFORD E. ARMSTRONG, *President*, Market Basket, Los Angeles

VICE PRESIDENTS

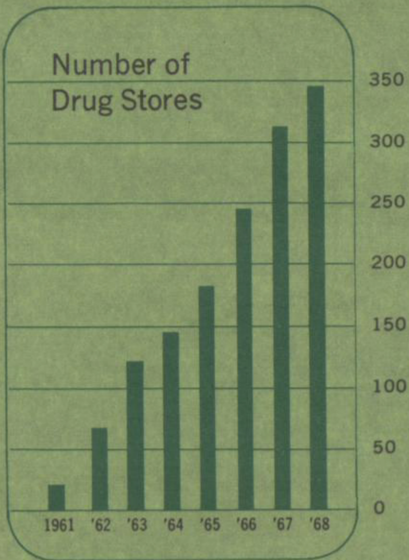
BILL G. BEATY, Toledo
ROBERT W. BRAUNSCHWEIG, Meat Merchandising
R. GUS BUBLITZ, Wisconsin
RONALD G. DAUGHERTY, Kansas City
F. LELAND DAVIS, Advertising
JACK W. DAVIS, Nashville
THOMAS E. DEWEY, Atlanta
WALTER R. DRYDEN, Charleston
H. ARVILLE FERGUSON, Grand Rapids
JOHN W. FIRTH, Roanoke
EDWARD R. FLOREA, Baked Foods
HOWARD A. GIFFORD, Detroit
EUGENE W. GRINER, Peoria
STANLEY E. HUNGERFORD, Memphis
RICHARD M. KOSTER, Chicago
JAMES A. LeROY, Houston
JOHN W. MARSH, Pittsburgh
PAUL P. MOORE, Cleveland
JOHN M. MULLEN, Sales
WILLIAM W. OLIVER, Louisville
JAMES B. PARKER, JR., Labor Relations
LEO P. PHILBIN, Indianapolis
ALBERT E. RAIN, Merchandising Control
GERARD J. REUSS, Fort Wayne
ROBERT E. SAFFRON, Cincinnati
NERVILLE A. SAWALL, Dallas
CHESTER B. STERN, St. Louis
HAROLD P. TEMPLETON, Columbus
CHARLES L. THOMAS, JR., Grocery Merchandising and Procurement
CHARLES W. WHITE, Little Rock
WALTER W. WHITE, Dayton

HIGHLIGHTS

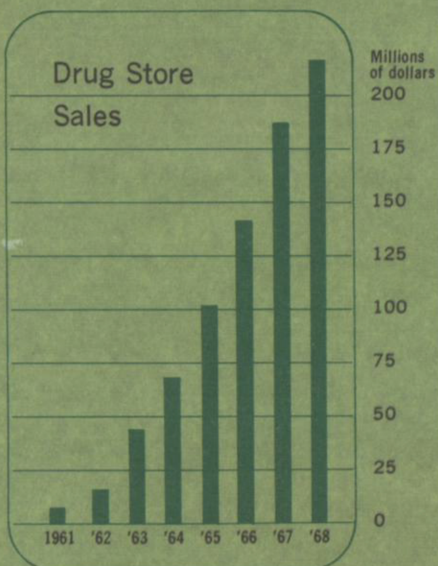
	1968	1967	Change
SALES	$3,160,837,821	$2,806,073,925	+12.6%
NET INCOME	$ 34,003,258	$ 25,715,601	+32.2%
NET INCOME PER COMMON SHARE	$2.64	$1.98	+33.3%
SHAREOWNERS' EQUITY	$ 281,733,014	$ 268,656,754	+ 4.9%
EQUITY PER COMMON SHARE	$21.53	$19.65	+ 9.6%
CAPITAL EXPENDITURES	$ 56,767,680	$ 48,307,183	+17.5%
DEPRECIATION AND AMORTIZATION	$ 31,156,563	$ 29,503,508	+ 5.6%

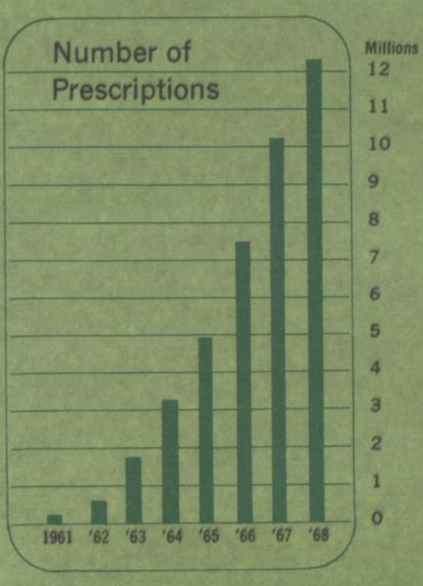
TRANSFER AGENTS
The First National Bank of Cincinnati, Cincinnati
Bankers Trust Company, New York

REGISTRARS
The Central Trust Company, Cincinnati
Chemical Bank New York Trust Company, New York


Number of Drug Stores
350
300
250
200
150
100
50
0
1961 '62 '63 '64 '65 '66 '67 '68


SUPER X DRUGS
DYNAMIC DISCOUNTS


Drug Store Sales
Millions of dollars
200
175
150
125
100
75
50
25
0
1961 '62 '63 '64 '65 '66 '67 '68


Number of Prescriptions
Millions
12
11
10
9
8
7
6
5
4
3
2
1
0
1961 '62 '63 '64 '65 '66 '67 '68


prescriptions

TO OUR SHAREOWNERS

EARNINGS

Kroger set new records in 1968. Net income was \$34,003,258, an increase of \$8,287,657 or 32.2% over the \$25,715,601 earned in 1967. Earnings amounted to \$2.64 per common share on the average number of shares outstanding versus \$1.98 last year. The 10% surcharge on federal income taxes reduced earnings by 24¢ per share.

Lifo charges were 17¢ per share compared to 5¢ per share in 1967. While the Lifo inventory method reduces reported earnings during periods of rising prices, it also reduces the federal income tax liability of your company. The tax savings attributable to Lifo since its adoption in 1950 have been substantial.

Investment tax credits amounted to 26¢ per share, up 7½¢ from last year. Net income included \$1,291,409 or 10¢ per share from unconsolidated companies, an increase of 4¢ per share from the 1967 figure.

SALES

Sales of your company crossed the \$3 billion mark for the first time in 1968. Kroger took 69 years to reach its first billion in sales. The second billion required 11 years; the third billion, five years. Sales of \$3,160,837,821 in 1968 were 12.6% ahead of last year.

DIVIDENDS

Dividends of \$1.30 per common share were paid during 1968, the 67th consecutive year that Kroger has paid dividends out of current earnings. The regular quarterly dividend of 32½¢ per share, payable March 1, 1969, has been declared.

RETAIL FOOD DIVISIONS

Performance of your company's food stores continued the favorable trend which began in the fourth quarter of 1967. Sales and earnings improved significantly during the year. While competition remained vigorous, our low-price, dynamic merchandising programs proved attractive to consumers who patronized Kroger stores in ever-increasing numbers. The improvement was broadly based and extended throughout our trading area.

There were 58 new stores opened during 1968, 46 old ones closed, and 107 existing stores remodeled. At the end of the year we had 1,495 stores in operation with a total area of 24,870,406 square feet. Average sales per store were \$1,948,794, an increase of \$211,312 over 1967. These figures include 16 Family Center stores.

In addition to replacing and remodeling stores, we have modernized and improved distribution facilities. Some of the developments in this area are unique to Kroger and offer considerable promise for the future.

A new mechanical-electronic system for the assembly of grocery orders was installed in our St. Louis distribution center which services over 100 stores in Missouri and Illinois. It is the result of continuing development work initiated in 1965 by Kroger and a major equipment manufacturer. While not yet fully perfected, the system has begun to increase the speed and efficiency of filling orders. It will also provide better space utilization and make the job of order assembly easier and safer for our employees.

Construction is nearly complete on a new 235,000-square-foot distribution center in Nashville, scheduled to open in June, 1969. This new warehouse will contain the most advanced equipment including an order assembly system similar to that in St. Louis and storage facilities for maintaining close environmental control over perishable products.

Frozen food storage capacity has been modernized and enlarged throughout most of the company. Sales in this important phase of our business have increased over 60% during the past five years and are expected to double during the next five. We offer Kroger customers a wide selection of the finest frozen food products.

A new computer ordering system has reduced the time required to process merchandise orders from our stores. Orders can be transmitted at any time to our Computer Center in Cincinnati via telephone lines and, within minutes, accounting and warehouse picking documents are printed out at the appropriate distribution centers. The warehouses can begin immediately to fill the orders.

MEAT FABRICATION AND DISTRIBUTION

Kroger customers for 30 years have recognized the superior quality of Tenderay Brand Beef. In order to maintain and further improve quality and value of beef

and other meats, we are continuing our program of building modern and efficient centralized meat fabrication and distribution facilities. Skilled Kroger beef buyers will accept for Tenderay only cattle which meet the most rigid quality specifications. Highest standards of temperature, sanitation and quality control are maintained throughout the fabrication lines where the beef is trimmed and prepared on an assembly line basis for distribution to stores. Our highly skilled meat cutters at the stores then complete the preparation of the meat for sale to our customers.

In addition to beef, the distribution facilities also handle pork, lamb, veal, poultry, bacon, sausage, lunch meats and other meat products with the same emphasis on quality and value.

During 1968 two meat fabricating and distributing facilities were added, bringing the total number to nine. One additional plant has already opened thus far in 1969 and two more are scheduled to open in the next few months.

FAMILY CENTERS

The year 1968 was one of growth and progress for your company's Family Center program. At the year end, 16 stores were in operation. We also operated five Thriftown full-line discount stores for the entire year.

Family Center stores are operating in Arkansas, Illinois, Indiana, Kansas, Louisiana, North Carolina and Texas. The store opening program for 1969 includes stores in six additional states as well as additional stores in states in which we are presently operating. We believe that there are many areas which present outstanding opportunities for this type of enterprise.

The Family Center stores range in area from 40,000 to 60,000 square feet. The Thriftown stores are somewhat larger. Family Centers include women's ready-to-wear departments, men and boys' clothing, children's apparel, domestics, housewares, hardware, automotive, sporting goods, health and beauty aids, and pharmacies in addition to a full-line food store. Many of the Centers also have lawn and garden facilities, lunch counters, tobacco shops, and jewelry and shoe departments.

We feel that the Family Center units are attractive for many cities and towns both within and outside the present Kroger operating territory. Their success during 1968 gives emphasis to our plans for their expansion in 1969 and subsequent years.

DRUG STORES

SupeRx is now making a significant profit contribution to The Kroger Co. Results in 1968 were excellent. Sales reached $219,245,776, an increase of 16.5% from the previous year. There were 41 new drug stores opened and three closed. At the end of the year, we operated 347 stores with a total of 3,172,453 square feet of floor space.

SupeRx now operates in 23 states. While 215 of its stores are adjacent to Kroger stores, it has entered other areas with outstanding success. Its 850 registered pharmacists filled over 12 million prescriptions in 1968, making it the second largest seller of prescriptions in the country. SupeRx pharmacists keep abreast of the latest trends in prescription methods and systems for continuing its policy of maintaining the highest standards of quality and accuracy in meeting the health needs of the communities that it serves.

SupeRx also takes pride in bringing virtually all nationally known franchise cosmetics lines within the neighborhood shopping reach. Our stores offer the customer a wide variety of high quality, fully stocked, attractively displayed and competitively priced health, beauty and sundry merchandise.

In addition to the SupeRx name, our drug stores are operated under the names Sav-On in greater New York and Gasen in St. Louis.

The rapid and profitable expansion of drug operations will continue in the years ahead.

MANUFACTURING DIVISION

"KMP" is a famous phrase within your company. It stands for Kroger Manufactured Products. These products are produced to rigid quality standards and are attractively packaged. They are then rushed to Kroger stores where they are priced at levels recognized to be outstanding values by Kroger customers.

The eight Kroger bakeries, four dairies, egg plants, candy kitchens, and grocery processing facilities produced over a billion pounds of quality merchandise for Kroger customers in 1968. Through these rapidly growing facilities and the products they produce, we are attracting new customers who recognize the savings available to them when they buy these high-quality food products.

In 1968 we completed our new candy plant in suburban Cincinnati. The company's candy kitchens cover over five acres and produce more than 300 different candy

items. Kroger is the second largest general line candy manufacturer in the United States.

In mid-1968 we opened a new dairy in suburban St. Louis, the second such facility to be built recently. The Detroit Dairy began operation in late 1967. These two new dairies, plus the two modern dairies located in Indianapolis and Cincinnati, produced over 250 million quarts of fresh milk and 15 million gallons of ice cream in 1968.

Kroger continued to be a leader in promoting egg quality during 1968. This resulted in another big increase in egg sales with total volume exceeding 100 million dozens, and was also a strong stimulus to the agricultural industry. During the past five years sales of Kroger Cackling Fresh Eggs have increased 46% versus a nationwide increase of only 4%.

A 172,000-square-foot sausage and luncheon meat plant is now under construction at our Springdale, Ohio, manufacturing complex. This facility will provide top quality products for Kroger customers and will be one of the largest such facilities in the country.

It has always been our policy to feature a wide variety of the leading national brands of merchandise in our stores. Products of our own manufacture complement rather than replace national brands. We will continue to add KMP products so long as we can make them available to Kroger shoppers at prices below those of comparable quality from other sources.

FINANCIAL

Working capital was $77,562,462 at the end of the year, down $10,404,474 from the end of 1967. Your company borrowed substantial amounts on a short-term basis from banks and in the commercial paper market during the year. All such loans were repaid by the year end.

The Cumulative Preferred Shares, Series A, which were issued to acquire Market Basket in 1963, were called for redemption in December. Of the 461,771 shares that were outstanding, 371,118 shares were converted into 556,677 shares of common stock at the rate of 1½ shares of common for each share of preferred. There were 90,653 preferred shares redeemed for cash at $50 per share plus accrued dividends.

Capital expenditures totaled $56,767,680. Stores and related equipment accounted for $22,411,973; distribution centers and equipment, $26,031,875; manufacturing facilities, $5,696,974; and miscellaneous items, $2,626,858. Depreciation and amortization amounted to $31,156,563. Retained earnings for the year, after dividends, amounted to $16,911,775.

MANAGEMENT

Several promotions were made which will add strength and vigor to our management team. Division Vice Presidents given positions of greater responsibility were R. Gus Bublitz, Wisconsin; Thomas E. Dewey, Atlanta; Richard M. Koster, Chicago; and William W. Oliver, Louisville. Newly appointed Division Vice Presidents were Bill G. Beaty, Toledo; Ronald G. Daugherty, Kansas City; and Walter W. White, Dayton. John M. Mullen was appointed Vice President, Sales. Carl W. Brieske was promoted to Controller.

Frank S. Vamos, Louisville Division Vice President, is retiring after 41 years of distinguished Kroger service.

During the past several years many younger men have moved into positions of major responsibility in all divisions of the company. These men have acquired additional experience in their new assignments and contributed significantly to the improved results in 1968. Your company now has a dynamic, seasoned management organization which is a great assurance of future excellence.

SUMMARY AND OUTLOOK

We are very grateful to the many thousands of loyal men and women who comprise the Kroger team. They set high standards of performance in all areas of the business. The results they accomplished were impressive.

While 1968 was a year of growth and progress, we must continue to move ahead. The year ended on a healthy trend. We expect to maintain our forward momentum and make 1969 another record year.

Sincerely,

Jacob E. Davis

President

February 7, 1969

CONSOLIDATED BALANCE SHEET

ASSETS	DEC. 28, 1968	DEC. 30, 1967
Cash	$ 27,731,987	$ 42,922,156
Receivables	27,877,354	23,299,300
Inventories (Note 2)	233,176,798	205,119,506
Store and general supplies	7,555,761	8,191,994
Prepaid and miscellaneous assets	9,069,354	7,544,418
CURRENT ASSETS	305,411,254	287,077,374
Land	15,053,858	13,466,899
Buildings	56,952,596	48,461,135
Equipment	295,939,182	271,563,380
Leaseholds and leasehold improvements	91,576,415	90,856,706
Less allowance for depreciation and amortization	(198,559,618)	(186,428,420)
Property, plant and equipment, net (Note 3)	260,962,433	237,919,700
Investments in and advances to unconsolidated companies (Note 1)	9,313,275	8,638,060
Excess of cost of investments in consolidated subsidiaries over equities in net assets	14,050,640	14,047,471
TOTAL ASSETS	$589,737,602	$547,682,605

LIABILITIES	DEC. 28, 1968	DEC. 30, 1967
Accounts payable	$148,938,149	$132,004,431
Accrued expenses	65,834,193	50,470,708
Accrued federal taxes	10,738,450	14,208,299
Long-term indebtedness (Note 4)	2,338,000	2,427,000
CURRENT LIABILITIES	227,848,792	199,110,438
Long-term indebtedness (Note 4)	28,690,000	31,028,000
Deferred federal income taxes	14,359,950	16,144,667
Employees' benefit fund (Note 5)	37,105,846	32,742,746
TOTAL LIABILITIES	308,004,588	279,025,851

SHAREOWNERS' EQUITY		
Preferred capital stock:		
First preferred, par $100	24,000	24,000
Cumulative preferred, voting, par $50 (Notes 6, 7 and 8)		
Authorized: 750,000 shares		
Outstanding: Series A; 1967—461,771 shares		23,088,550
Common capital stock, par $1 (Notes 7 and 8)		
Authorized: 18,000,000 shares		
Issued: 1968—13,471,864 shares;		
1967—12,887,075 shares	81,340,025	62,086,990
Accumulated earnings (Note 4)	214,239,827	197,328,052
	295,579,852	259,415,042
Less, 390,172 shares common capital stock held in treasury, at cost	13,870,838	13,870,838
	281,709,014	245,544,204
TOTAL SHAREOWNERS' EQUITY	281,733,014	268,656,754
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY	$589,737,602	$547,682,605

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF INCOME

Years Ended December 28, 1968 and December 30, 1967	1968	1967
Sales	$3,160,837,821	$2,806,073,925
Cost of sales	2,531,065,038	2,252,520,493
Operating, general and administrative expenses	566,250,650	506,052,685
Total	3,097,315,688	2,758,573,178
Operating profit	63,522,133	47,500,747
Interest expense	3,875,284	3,785,000
Income before federal taxes	59,646,849	43,715,747
Federal income taxes	26,935,000	18,722,000
Income after taxes	32,711,849	24,993,747
Equity in net income of unconsolidated companies (Note 1)	1,291,409	721,854
Net income	$ 34,003,258	$ 25,715,601
Net income per share of common stock (Note 9)	$2.64	$1.98

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF ACCUMULATED EARNINGS

Years Ended December 28, 1968 and December 30, 1967	1968	1967
Accumulated earnings—Beginning of the year	$197,328,052	$188,782,450
Net Income for the year	34,003,258	25,715,601
	231,331,310	214,498,051
Dividends:		
Preferred	776,012	994,263
Common	16,315,471	16,175,736
	17,091,483	17,169,999
Accumulated earnings—End of the year (Note 4)	$214,239,827	$197,328,052

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. The consolidated financial statements include the company and all of its domestic subsidiaries except Top Value Enterprises, Inc.

   Investments in and advances to unconsolidated companies:

Domestic subsidiary and fifty per cent owned companies, at cost plus share of undistributed earnings since acquisition (approximates equity in net assets)	$8,428,725
Foreign subsidiaries, at cost	884,550
	$9,313,275

2. Inventories are valued at the lower of cost, in part on a Lifo basis, or market.

3. Property, plant and equipment are stated at cost. Depreciation and amortization, computed principally on a straight line basis, are included in costs and expenses in the amounts of $31,156,563 and $29,503,508 for 1968 and 1967, respectively.

4. Long-term indebtedness:

3.1% notes maturing in 1971; with annual prepayments of $700,000	$ 8,400,000
4¾% notes, 70% maturing in 1978, 30% maturing in 1979; with annual prepayments of $500,000	7,650,000
4.8% notes maturing in 1981; with annual prepayments of $750,000	12,750,000
5½% notes maturing in 1977; with annual prepayments of $140,000 to November 1, 1973 and $160,000 thereafter	1,360,000
Other; annual prepayments due in varying amounts through 1972	868,000
	31,028,000
Less amounts due within one year	2,338,000
	$28,690,000

   Under certain of the loan agreements, payments of cash dividends are limited. At December 28, 1968, accumulated earnings unrestricted, under the agreement carrying the maximum limitation, amounted to $111,655,839.

5. The company and certain of its subsidiaries have noncontributory retirement plans for eligible employees. During 1968, a new plan was established for certain employees which provided for revised benefits. Pension cost accrued each year for the new plan is being funded. The other plan is not presently being funded. The actuarially computed value of vested benefits as of December 30, 1967 exceeded the balance sheet accrual by approximately $10,400,000. The total expense for 1968 and 1967 was $11,693,000 and $10,300,000, respectively. The expenses include current service costs plus interest on and amortization of past service costs over forty years.

6. The Cumulative Preferred Shares, Series A providing for an annual dividend of $2.15 per share were called for redemption effective December 2, 1968. Redemption price per share was $50.00 plus $.37 accumulated and unpaid dividends. See note 8.

7. Options to officers and executives to purchase 503,525 shares of Kroger Common Stock were in force at December 30, 1967. Option transactions during 1968 may be summarized as follows: granted 120,700 shares; exercised 28,112 shares; expired or cancelled 178,150 shares. Options to purchase 417,963 shares (at prices ranging from $20.31 to $34.50 per share) were in force at December 28, 1968. Shares available for option at the beginning and close of the year were 23,100 and 42,300, respectively. Options for 207,593 shares were exercisable at December 28, 1968. Options to Market Basket employees to purchase 3,494 Kroger Cumulative Preferred Shares, Series A, were in force at December 30, 1967. Option transactions during 1968 may be summarized as follows: expired or cancelled 3,494 shares. There were no options in force at December 28, 1968. There were no shares available for option at the beginning or close of the year.

8. Changes in capital stock during the year were as follows:

	Common Stock		Cumulative Preferred Stock, Series A	
	Shares	Amount	Shares	Amount
Beginning of Year	12,887,075	$62,086,990	461,771	$23,088,550
Exercise of options	28,112	697,135		
Conversion	556,677	18,555,900	(371,118)	(18,555,900)
Redemption			(90,653)	(4,532,650)
End of Year	13,471,864	$81,340,025	—	—

9. Net income per share of Common Stock is based on the average number of shares outstanding during each year after recognition of the dividend requirements on the preferred shares.

10. The company operates principally in leased premises. Aggregate minimum annual rentals are approximately $49,476,000 of which $34,545,000 relates to leases outstanding at December 28, 1968, and expiring subsequent to 1973. Lease terms generally range from 10 to 25 years with options of renewal for additional periods. Options provide in some cases for renewals at reduced rentals and/or the right to purchase.

11. Reclassifications have been made in the December 30, 1967 balance sheet to conform to the December 28, 1968 presentation.

OPPOSITE PAGE: *The new five-acre candy plant in suburban Cincinnati produces over 300 different candy items.*


HAYSSEN
HAYSSEN
HAYSSEN

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

LYBRAND, ROSS BROS. & MONTGOMERY
CAREW TOWER
CINCINNATI 45202

To the Board of Directors
The Kroger Co.

We have examined the consolidated balance sheet of The Kroger Co. and subsidiary companies as of December 28, 1968, and the related consolidated statements of income and accumulated earnings and the consolidated statement of sources and uses of funds for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated financial statements of the company and subsidiary companies for the year 1967.

In our opinion, the above referred to financial statements present fairly the consolidated financial position of The Kroger Co. and subsidiary companies at December 28, 1968, and December 30, 1967, and the consolidated results of their operations and sources and uses of funds for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

February 7, 1969 Lybrand, Ross Bros. & Montgomery

CONSOLIDATED STATEMENT OF SOURCES AND USES OF FUNDS

	Year Ended Dec. 28, 1968	Year Ended Dec. 30, 1967
SOURCES OF FUNDS		
From current operations:		
Net income for the year	$ 34,003,258	$ 25,715,601
Charges to income not requiring funds:		
Depreciation and amortization	31,156,563	29,503,508
Provision for employees' benefit fund	4,363,100	7,239,094
Provision for deferred income taxes	(1,784,717)	(3,389,765)
Capital stock issued under stock option plans and for acquisitions	697,135	2,104,050
Sale of capital assets subsequently leased back		25,000,000
Net book value of capital asset disposals	2,423,320	5,288,962
Total Sources	70,858,659	91,461,450
USES OF FUNDS		
Capital expenditures	56,767,680	48,307,183
Dividends paid	17,091,483	17,169,999
Preferred stock redeemed	4,532,650	
Reduction in long-term indebtedness	2,338,000	2,427,000
Other changes—net	533,320	2,530,061
Total Uses	81,263,133	70,434,243
NET CHANGE IN WORKING CAPITAL	(10,404,474)	21,027,207
Working capital, beginning of the year	87,966,936	66,939,729
WORKING CAPITAL, END OF THE YEAR	$ 77,562,462	$ 87,966,936

OPPOSITE PAGE, Top to Bottom: *The ultra-modern Detroit Dairy serves over 250 stores throughout Michigan and Northern Ohio... An interior view of one part of the meat fabricating and distribution facility supplying stores in the Greater Cincinnati and Dayton areas... The 44,000-square-foot Family Center store in Victoria, Texas... The heart of the automatic liquid-sponge system that went into operation at the Indianapolis Bakery in early 1968. The system is a key factor in providing top-quality, fresh bakery products to our customers.*


KROGER
MMPA
MILK
FOR VITALITY


GROUND BEEF

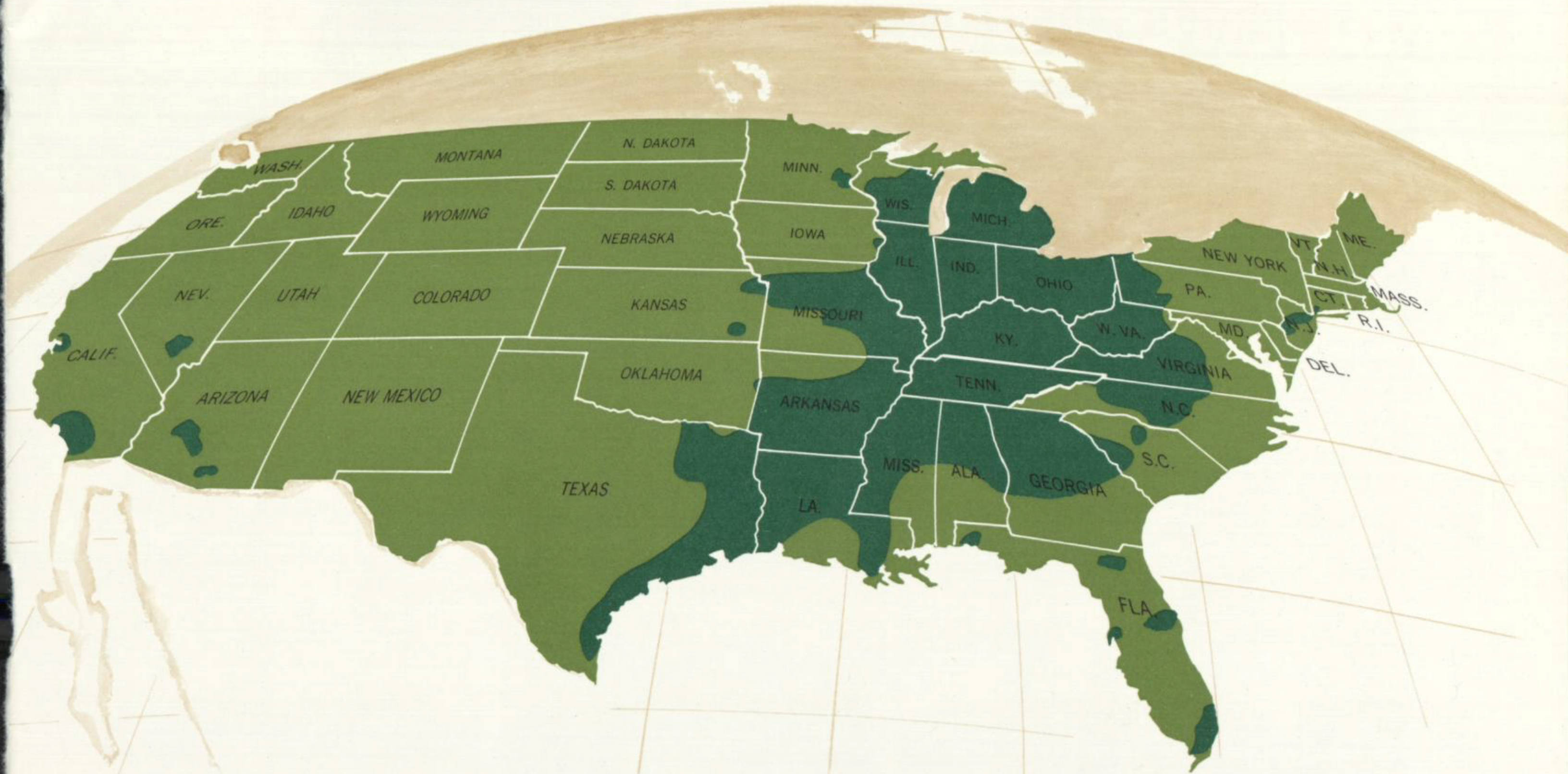

KROGER
Family Center


TOLEDO

10 YEAR STATISTICAL SUMMARY

FOR THE YEAR (thousands of dollars)	1968	1967	1966	1965
SALES	$3,160,838	$2,806,074	$2,659,983	$2,555,109
NET INCOME BEFORE TAXES	59,647	43,716	48,402	56,112
NET INCOME	34,003	25,716	29,383	31,302
DIVIDENDS	17,091	17,170	17,157	16,392
RETAINED EARNINGS	16,912	8,546	12,226	14,910
DEPRECIATION AND AMORTIZATION	31,157	29,504	26,426	24,204
CAPITAL EXPENDITURES	56,768	48,307	66,626	44,489
PER SHARE OF COMMON STOCK				
NET INCOME*	$ 2.64	$ 1.98	$ 2.28	$ 2.42
DIVIDENDS	1.30	1.30	1.30	1.22½
SHAREOWNERS' EQUITY	21.53	19.65	18.92	17.72
AT THE YEAR-END (thousands of dollars)				
INVENTORIES	$ 233,177	$ 205,120	$ 183,995	$ 184,344
WORKING CAPITAL	77,562	87,967	66,940	90,410
FIXED ASSETS—NET	260,962	237,920	248,750	216,013
LONG-TERM DEBT	31,028	33,455	35,762	41,174
SHAREOWNERS' EQUITY	281,733	268,657	258,007	244,958
FOOD STORES				
NUMBER OF STORES	1,495	1,483	1,493	1,458
TOTAL AREA (thousands of square feet)	24,870	24,209	24,096	23,196
DRUG STORES				
NUMBER OF STORES	347	309	245	180
TOTAL AREA (thousands of square feet)	3,172	2,855	2,296	1,722
SHAREOWNERS/EMPLOYEES				
NUMBER OF SHAREOWNERS	49,575	52,885	45,411	40,804
NUMBER OF EMPLOYEES	48,128	44,604	41,462	39,997

* *1966-1968 Based on average number of shares outstanding during the year. Prior years based on shares outstanding at respective year ends.*



1964	1963	1962	1961	1960	1959
$2,327,563	$2,102,106	$1,947,571	$1,842,343	$1,870,290	$1,911,902
54,449	45,084	44,219	35,036	48,218	54,138
27,923	22,079	20,424	16,953	23,478	25,517
15,228	14,168	13,846	13,858	13,745	11,766
12,695	7,911	6,579	3,094	9,733	13,751
22,308	20,027	18,932	18,992	17,723	14,575
31,761	31,379	36,151	32,655	37,620	32,997
$ 2.14	$ 1.73	$ 1.62	$ 1.34	$ 1.87	$ 2.06
1.12½	1.10	1.10	1.10	1.10	.95
16.81	15.94	15.39	14.96	14.75	13.97
$ 169,501	$ 156,420	$ 131,832	$ 121,395	$ 118,783	$ 118,863
102,272	93,949	82,086	95,695	77,682	93,855
198,357	190,955	174,684	169,967	164,215	145,970
42,945	44,565	62,617	63,434	46,302	57,330
235,239	224,592	194,304	188,885	185,077	173,461
1,431	1,424	1,364	1,354	1,372	1,393
22,296	22,027	19,842	18,940	18,265	17,393
146	119	66	18	7	—
1,420	1,156	606	181	58	—
41,602	42,904	39,936	36,368	35,663	34,972
39,785	39,130	37,440	37,308	39,691	40,157

1968

SUPER X
drug stores